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# HOW TO EXTEND COMMERCE IN THE FAR EAST.

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IN discussing the extension of commerce in the Far East, my purpose is to comment upon some principles of business, well known, to be sure, but often overlooked in current discussion, and to speak of some conditions to be met in the Orient before noting primarily what measures must be adopted. It must be kept in mind that the work of the economist is simply to state the principles of actual business. There is no true economic science that is not based upon actual business; and there can be no sensible business plans that do not rest upon study of business conditions in the special case under consideration.

It will be assumed also as fundamental that business is a complicated subject, requiring intelligence and training to understand it thoroughly and ability, often of a very high order, to conduct it successfully on any large scale. The needed training must be gained in good part in actual touch with business itself; but the training in a business house may, doubtless, be shortened, and likewise made broader and better suited to modern operations on a world-wide scale, by preliminary study in special schools and colleges adapted to that end.

*Nature of Commerce.*—The subject of commerce includes, of course, retail and wholesale trade on the one hand, and local, national, and foreign trade on the other. Each of these divisions has its own problems and its own methods, and to a considerable extent the training for each must be special. Naturally some fundamental principles, those of accounting, for example, are similar in all. It is necessary in every case that the business be so analyzed and understood that the reckoning of costs and

the determination of profits and losses can be made clear; and in many other ways the lines of business will be found similar, whatever their scope. On the other hand, the methods of purchase and sale of the retailer of necessity differ decidedly from those of the wholesaler. His methods of advertising, his systems of credit, his percentages of profit, his knowledge of markets, his whole range of information and activity must be vastly different. Likewise, the person who buys and sells locally, whose transportation of goods is limited by the delivery wagon, has problems quite different from those of the man whose business is largely a mail-order or express business if he is a retailer, or whose range of sales is national if he is a wholesaler. Still new and entirely different problems come up for the merchant whose business is international in its scope. In many instances, also, aside from the more narrow business questions, there enter into commercial transactions on a large scale questions of politics, which cannot be ignored if one's business is to be successful; and, again, the question of national politics, in the one instance, may easily broaden into one of international politics, in the other. The merchant in Chicago may find his business considerably hampered by the teamsters' strike, and may find that this question is complicated by relations which may arise with the city government, the State government or even the Federal Government; but, if his dealings are with the Far East, he may find that a shipment of machinery destined for Tientsin has been carried off to Vladivostok, as in one case which I knew, because the ship happened to carry also contraband of war for the Japanese, and the Russians captured it.

*General Training for Commerce.*—In current discussions in the press and elsewhere, many of the more fundamental principles of commerce, and the training which is requisite to enable our young men to cope with the problems which may arise in their business, have been adequately considered. It is generally conceded that, besides the principles of accounting and cost-keeping referred to, one should possess a fair knowledge of foreign exchange, a comprehensive outlook over the most important markets for the purchase and sale of leading staple products, a reasonable understanding of shipping by water and rail routes and the relative costs of different routes and classes of freights, an insight into the fundamental principles of commercial law, a

sufficient knowledge of the languages of the countries in which one is to work, besides, of course, a detailed knowledge of the goods to be handled and the special requirements of the individual business, which can be learned only in the business itself. I may assume, therefore, that these general principles are accepted and carried into effect, and I will simply answer some further questions as to the peculiarities of commerce in the Far East which will require certain special training to be added to the general training thus outlined.

*The Problem of the Balance of Trade.*—In most of the late discussions on the trade of the United States with the Orient, there has been emphatic insistence upon the necessity of our “extending our markets into the Orient,” of our finding a field in which we may “dispose of the surplus of our manufactures.” We have been repeatedly assured that, if we are to become a great World Power, it is necessary that we reach out and capture these Oriental markets for our goods as far as possible in advance of our rivals. Relatively very little has been said about the possibility of our finding in the Orient opportunities for purchases which may satisfy our own needs; and I have even found persons who have been speaking and writing upon these questions somewhat embarrassed when they were asked what they proposed to accept in return for the goods which they wished to sell in the Orient. It seems to have been thoughtlessly assumed, either that we might be willing to sell to the Orient without securing a fair equivalent in return, or, what is much more likely, that the Oriental country to which we might sell would have an unlimited supply of cash with which to pay for our goods. If, however, we are continually to expand our sales, there must be a corresponding expansion in the Orient of the power of producing those goods which the West may be willing to take in exchange. To take China for an illustration. For many years in the past China has paid for a large proportion of the goods which she has imported from foreign countries by the export of silk and tea, though of late other shipments are relatively increasing. It is a fair question whether foreign countries, if they double or triple their sales to China, are going to be willing to take twice or three times as much silk and tea in exchange, at prices which will be substantially the same as those at present; or whether they will take more products of other

kinds from China. If China has not now sufficient acceptable means of payment, will foreigners be willing to take an active part by investing capital to develop certain new industries and added wealth there, which will enable that country to supply foreign needs more readily in order to meet her increasing demands for foreign goods? We too often overlook the fundamental principle that, in the long run, a country must pay for what she buys, and that, speaking generally, she must pay for the goods which she purchases by goods which she sells.

Of course, in certain instances, if a country is a creditor country, as is England, she may purchase goods with the interest due on her bonds or stocks of a debtor country; or, if she has a great merchant marine, she may pay by the freights which foreign countries owe her citizens for transportation; or, if, as in the case of China, many of her citizens go abroad to labor, she may pay in part for the goods which she buys by the labor of her citizens working in the foreign country. In other ways also payments may be made; but, in whatever way we explain the matter as regards details, it is still clear that the citizens of a country, by their labor or by their capital, must in some way pay for the goods which that country buys.

An apparent exception to this general principle should, however, be made in the discussion of the extension of our commerce with the Far East. At the present time, China is much in need of railways, of iron bridges, of foreign machinery of various kinds. If our citizens have capital to invest in China and put that capital into the form of railway material or manufacturing establishments, it is probable that these American owners of the capital thus invested may be willing to let their capital stay in China, and to draw on that capital for use at home only the dividends on their investments. Indeed, in special cases, investors might well be willing practically to transfer their capital to China and to reinvest their profits there, making that for the time being the home of their capital, if not their own personal home. To that extent, there might be a selling of certain classes of goods to China, for which, for an indefinite period, there would be no return demanded in the form of exported goods. The pay might be taken in only a claim to wealth there. This would be probably the only exception to the above general principle.

*Our Far-Eastern Markets.*—We need also to distinguish rather

sharply the different markets open to us in the Orient, for the conditions of trade in these markets differ greatly, and the nature of the information needed and the methods to be employed differ accordingly. It is probable that for some years to come our chief Oriental markets will be: (a) The Philippine Islands; (b) China, including Manchuria; (c) Japan, including Corea; (d) other minor countries, such as Hongkong, the Straits Settlements, the Dutch East Indies, etc.

*The Philippine Islands.*—While the Philippine Islands are in one sense part of our national territory, in another sense they are to be considered in much the same way as foreign territory, because from their location many of their problems, such as the question of foreign exchange in the payment for goods and the cost of transportation, are similar to those in connection with other countries of the Far East. On the other hand, as regards the political influences which have a bearing upon their commercial condition, the problem is mainly domestic.

The Government there is, of necessity, friendly to the Government of the United States. (It is proper, I think, under the circumstances, to speak of a "necessary friendliness.") The Government of the United States is disposed also to favor the industries of the Philippine Islands at the expense, if need be, of other foreign countries, if not of the United States itself. The Philippines, in consequence, form in certain respects, perhaps, a better field for investment of American capital than do the other countries under consideration. It is probable also that some of the products of the Philippines are better adapted at the present time for American investments than those of most other countries, and investments are the forerunners of commerce in such cases. For example, nowhere else in the world is Manila hemp produced to any noticeable extent, and up till now, in spite of the partial competition of sisal and other fibres, there has been found no real substitute for it. Under the Spanish régime, and so far under the American régime, the methods of cultivation, of transportation, of purchase and sale, and of local manufacture of the hemp are of a very primitive nature. There can be no doubt that here is a very important field for the development of American commerce through a preliminary investment of American capital. Commissioner Forbes lately wrote that we could "treble the output of hemp by giving adequate

transportation and proper pay to the hemp-cleaners." This will, in the first instance, create a demand for American machinery and steel in the Philippine Islands; and then, later, as the hemp industry develops in importance, this increased wealth will lead to an increased demand for other American products.

The same statement may be made, with somewhat less emphasis, regarding the tobacco and sugar and cocoanut industries in the Philippines. The tobacco industry has already been developed to a considerable extent by Spanish and Filipino capital. It should become an immense industry, as should the extraction of cocoanut oil. The sugar industry, however, remains still in a decidedly primitive condition, and apparently needs for its large expansion only a somewhat more liberal policy on the part of the American Congress, in the direction of land privileges and lowered tariffs. Such added wealth would call for many more American products to pay for the exported tobaccos, copra and sugars. With proper methods of agriculture, of transportation, and especially of manufacture, in the sugar industry, there can be no doubt that it would greatly develop. Moreover, there is every reason to believe that, when the capital was once invested, the increased sugar product would be sold largely, not on the American market, as our timid advisers of Congress seem to fear, but rather on the markets of China and other countries of the East.

Still further investments in the building of railroads, of electric roads, of local steamship lines, of sawmills and in other industries of the Philippines would carry out this same principle of increasing the trade of our home country, as well as of the Philippines themselves, through the development of their wealth by American investments. They will not buy much more than they do now, until they can sell more.

*China.*—The situation in China is much the same as in the Philippines, with two or three important lines of difference. In the first place, the money of China is without any fixed standard, consisting practically, in case of larger payments, only of silver bullion to be weighed out. Each large dealer—even each traveler of means—has his own scales to weigh out his money, while almost every separate town has its own unit of weight, differing by often a considerable percentage from others. Silver bullion, too, is itself a marketable product, of which the value continually fluctuates in terms of gold. These things make the risks of busi-

ness so much like gambling risks that trade must, of necessity, be very seriously hampered, until the Chinese Government adopts some standard uniform system.

Again, owing to a considerable degree to the ill treatment which the Chinese have received from some foreign countries, through the seizure of territory and the mistreatment of individual Chinese, as well as to the very unfriendly attitude of some of the people of the United States in connection with Chinese immigration, and the rude treatment of cultivated Chinese at times by our immigration officials, the Chinese themselves are disposed to be suspicious, and, as we have seen of late, even decidedly unfriendly toward American trade. Not only are they inclined to boycott American goods in their purchases, but late letters from China intimate that they are urging the policy of refusing to work at all for Americans, to unload American goods from ships, or to handle them in any way. The boycott movement, put into effect in Shanghai, Canton and other ports in July, is spreading to Hongkong, the Straits Settlements and other places outside of China where Chinese live in large numbers. This suggests another point in connection with the extension of foreign commerce, upon which too great emphasis cannot be placed. In order to extend business in any country, the dealings with that country, both of the Government and of private merchants, must be, first, honest and, second, courteous.

There are many lines of investment in Chinese enterprises which, besides furnishing adequate returns on capital, will in turn encourage American exports to China. Not only may railroads and mines be developed, but such industries as the immense silk industry are managed by antiquated methods, and new capital and modern methods would give them an enormous development.

For the present, it is hard to tell whether the conditions in Manchuria are to be assimilated to those in China or to those in Japan. But, in any event, the conditions must be studied carefully with reference to the needs and tastes and prejudices of the people of Manchuria, rather than to our own customs.

*Japan.*—The conditions in Japan need to be differentiated quite sharply from those in China. In the first place, their monetary system is satisfactory, so that the risk of exchange is removed. Second, the Japanese, while disposed to be friendly, are neverthe-



less, as a nation, looking much more carefully after their own special internal interests than are the Chinese, so that it is perhaps even more difficult to find there a field for profitable investment. As is well known, the feeling among foreign investors in Japan, in many instances, is that they have not always been treated with fairness by the Japanese Government (for example, in the case of the tobacco monopoly and, at times, in the courts); and, furthermore, that Japanese tradesmen are not always trustworthy in their dealings. The Japanese are making earnest efforts to develop their own manufactures along many lines, so that their market needs to be more particularly studied with reference to the nature of the goods which Americans can sell there, as well as with reference to the products of Japan which can profitably be purchased by Americans.

*The Other Countries.*—No different condition in the other countries needs especially to be touched upon here, as they are severally of relatively minor importance.

*Suggestions.*—This hasty indication of what may be found in the Philippines and in some of the other countries, serves as a basis for touching briefly upon some of the principles that need to be taught in connection with our commercial colleges, and carefully considered by our exporters. First, it cannot be emphasized too often that, in selling goods, it is necessary to consider the likes and dislikes of the purchasers rather than our own. Our consuls are continually dwelling upon the fact that American manufacturers and merchants are too strongly inclined to insist upon keeping their own standards, and imposing those standards upon the Chinese, Japanese and other foreigners. An illustration from late consular reports will explain:

Chinese shoes are quite different in type and style from American shoes; in consequence, our American rubber overshoes and boots are sold hardly at all in China, whereas Germany is supplying many. The Germans make a special, short half-boot of light weight, which does meet Chinese requirements, and the Chinese are using them in large numbers; whereas the American rubbers can be worn, and are worn, only by the few Chinese who have adopted the foreign style of dress, or by those who wear them as shoes and not as overshoes.

The Germans and the Japanese have far outstripped us in their readiness to meet Chinese needs. Hundreds of miles in the in-

terior of China are found clocks, cheap ornaments and toilet articles of various kinds made in Germany or Japan, often after an American model, sometimes labelled as American, but poorer and cheaper than the American product, and in consequence more acceptable to the Chinese. If our merchants had learned the principle that they must study the needs of their customers as thoroughly as have the Germans and the Japanese, we should in many cases be supplying the needs now supplied by them.

Moreover, we have not learned to pack our goods well for so long and difficult a shipment. In consequence, our goods frequently arrive in the Far East so damaged that they are scarcely saleable,—an inexcusable neglect, showing lack of intelligent information.

Again, the English particularly, but also the Germans, have accustomed the people in the Far East to long-time credits. Obtaining their capital at low rates of interest at home, they will readily carry an account for six months or a year, whereas our dealers often require payment in cash, even in part before the goods are delivered. We can scarcely hope to achieve great success, if we do not recognize customs of credit such as these.

Most important, perhaps, of all, as I have intimated before, is the fact that we do not always have the reputation of fair and courteous dealing, either politically or in a business way, though in these regards we are on the whole not worse than others. The Chinese distrust all foreigners in many ways, though generally recognizing the business honesty of the regularly established houses. The record which the Americans have made in working the concession for what is possibly the most important railway in all China (the Canton-Hankow line), has greatly discredited us. In the concession, it was provided that the Company should be and should remain American; but, within a comparatively short time, the control of a majority of the stock was placed in the hands of the Belgians, who were apparently so closely associated with the French and the Russians that the Chinese felt, and with reason, that they had been grossly deceived and mistreated, not to use so strong a word as “betrayed,” by the Americans. Only under pressure of the threat of cancelling the concession was the road finally bought back by Americans; and lately, as we know, the Chinese have bought back the road at a profit to the Americans;—or, to put the matter differently, the Chinese Govern-

ment cancelled the concession and paid the American stockholders an indemnity large enough to yield them a profit. This treatment of this concession by the Americans, *i. e.*, the selling of the controlling share of the stock to the Belgians, which the Chinese themselves believe to be dishonorable, and which very many Americans who have investigated the question likewise consider dishonorable, has so discredited our Government and our business men that the small amount of money made by a few private speculators has been lost hundreds of times over by the loss of national and business prestige thereby incurred.

There is little use of attempting to extend trade in a country, unless we are willing so to deal that the citizens of that country will have confidence in us and will be inclined, on the whole, to like us rather than to dislike us. The prompt action of the President in his orders regarding immigration to our consuls and immigration officials is clearly wise and right. It is greatly to be regretted that means were not found in time to repair the damage to our prestige done by the Canton-Hankow railroad in some way which would have retained for us this concession.

It is to be said, on the other hand, that American individuals, whether travellers or business men resident in China, are often, if not usually, better liked personally by the Chinese than are the citizens of almost any other country. Americans, as a rule, are more kindly and more courteous in their treatment of the Chinese than are others. They have been trained in a democratic country, and they are more likely to treat the Chinese as equals, or at any rate as human beings, than as beings of an inferior order who may be beaten or kicked or insulted at will. I have seen foreigners, travelling in the interior, stone Chinese bystanders, who were merely gratifying a natural curiosity by looking at them, as in our rural districts, where Chinese are rarely seen, they would be looked at by our people. In Peking even, I saw one day an Austrian sentry, instead of quietly warning off an old ignorant Chinese and his wife riding a donkey along a forbidden path utterly innocent of any wrong-doing, club them both with a heavy cane until the old woman fell from the donkey in her fright and efforts to dodge.

In China particularly one should know the technical laws growing out of the principle of extritoriality, which obtains in China in the dealings between the Chinese and foreigners. It might

frequently be very useful to know the leading points in the commercial laws of Germany, France, England and other countries, because the laws of those countries are administered in China in the consular courts representing the different countries. Of course, the knowledge of goods of the type which the merchant proposes to sell or buy is essential.

We need, moreover, to train our young men, whether they expect to serve as consuls or as salesmen, that, if they are to succeed, they must be prepared to stay in the Orient a considerable length of time, and to study carefully the conditions. If their field of work is in China and they wish to be thorough, they must learn Chinese, at any rate must learn to speak the commercial Chinese—and that is no more difficult than to learn to speak German, although it is much more difficult to learn to write Chinese than to learn to write German. The Germans are compelling many of their well-trained young men to familiarize themselves with the Chinese language. We must do the same with ours. It is utterly useless to send out catalogues and price-lists printed in English, as is so often done.

Of greater importance is it, however, to study the Chinese customs of living, of manufacturing, of buying and selling, so that our manufacturers may fit their supplies to the local demands, and may stand ready to learn what opportunities may arise for improving the products of China which they may wish to buy for export. The general principles of buying and selling, of account-keeping, etc., may be learned in our schools; the details of an Oriental business can be learned only in the Orient.

The principles of money and of banking, and especially of foreign exchange, must be learned, and thoroughly learned; first, because, on account of the present evils arising from fluctuations in exchange, business is largely speculative, and it is necessary to reduce the risks as far as possible; and, second, because it is important that every foreign dealer in China should so understand what is needed that his influence may continually be used to induce the Chinese Government to improve its system. Too many of the suggestions already made by foreigners have been suggestions in the wrong direction.

It is important, too, for success from a national point of view in this commerce, that our young men should have a pretty thorough training in economics—enough to lead them to know

and to feel that it will pay as well to learn what the Orient can sell as what it will buy; to see that exploitation is not a sound policy for a permanent foreign trade, but that a large and permanent trade can be built up, in the long run, only if it is soundly based upon a fair exchange for the benefit of both countries, and that an investment in a foreign country, for the purpose of developing its export trade, may prove as useful to the home nation as selling goods in that foreign country for the immediate profit of the home exporter.

Those interested in our commercial expansion in the Far East may also look further and see what can be done to train capable Chinese here; the Japanese are looking well after their own training. That will also extend trade, and it is of prime importance both commercially and politically. It is well known that Japan, Belgium, Germany, and other countries are offering special inducements to young Chinese to go to those countries to study, and they are going to those countries in far larger numbers than they are coming here. Probably fifty students go to Japan for every one coming to the United States. There can be no doubt that, when these Chinese return home to undertake work as engineers or as manufacturers or as merchants or as officials, they will certainly favor in the long run the countries in which they have been trained. It is greatly to be desired that both our Government and our people do what they can to encourage Chinese, Japanese, Filipinos, and other Orientals to come here to secure their training, both general and commercial. We can afford to make good financial expenditures to bring about that result.

And, finally, it is important to emphasize again that a fundamental business principle, to be kept always in mind, is that tolerant, liberal, fair dealing is the only wise policy from the business as well as from the moral point of view. This principle needs particularly to be emphasized in connection with the Orient, and with other countries less developed in commercial and manufacturing methods than our own, because the temptation is always stronger to deal unfairly with those unversed in Western methods, and because, as a matter of fact, the attempt has been made and in many cases successfully, both by governments and by individuals, to exploit unfairly many of the Orientals.

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